



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: July 31, 2002

REPORT NO. CMR-02-164
RA-02-17
HAR 02-008

ATTENTION: Honorable Mayor and City Council
Chair and Members of the Redevelopment Agency
Chair and Members of the Housing Authority

SUBJECT: Comprehensive Affordable Housing Strategy

REFERENCE: Land Use and Housing Status Report on Citywide Affordable
Housing Strategy HCR 02-030 (Attachment 1)

SUMMARY:

Issue(s):

Should the City Council agree in concept with the affordable housing strategy described herein and direct the Redevelopment Agency (City Redevelopment Division, Centre City Development Corporation, Southeastern Economic Development Corporation), and the San Diego Housing Commission to:

- 1) Finalize priorities for developing housing for moderate, low- and very-low income San Diego residents.
- 2) Prepare a joint Notice of Funding Availability (NOFA) using the process outlined within this report.
- 3) Formulate the appropriate financing utilizing the Agency's 20% Low and Moderate Income Housing Fund ("LMIHF") to expand the supply of affordable housing throughout the City.

- 4) Establish implementation procedures to provide financing derived from the various agencies in conjunction with the implementation of the Citywide Notice of Funding Availability (NOFA).

Manager's Recommendation(s) –

That the City Council agrees in concept with the affordable housing strategy described herein and directs CCDC, Housing Commission, SEDC and the Redevelopment Agency to:

1. Establish priorities for developing housing for moderate, low- and very-low income San Diego residents.
2. Prepare a joint Notice of Funding Availability using the process outlined within this report.
3. Formulate the appropriate financing utilizing the Agency's 20% Low and Moderate Income Housing Fund ("LMIHF") to expand the supply of affordable housing throughout the City.
4. Establish implementation procedures to provide financing derived from the various agencies in conjunction with the implementation of the Citywide Notice of Funding Availability (NOFA).

Other Recommendation(s): the CCDC and SEDC Boards of Directors are scheduled to meet after this report is circulated but prior to August 6, 2002. Therefore, the Comprehensive Affordable Housing Working Group (the "Working Group") will provide the outcome of their recommendations at that time.

Fiscal Impact: None with this action, however, the Working Group is committed to leverage approximately \$5 to \$6 million annually in tax increment to secure approximately \$55 million in financing in order to initiate development of approximately 2,185 newly constructed affordable units. The amount of funds actually used would be project driven, based on development agreements executed for projects identified through the proposed selection process.

Affordable Housing Impact: The Working Group proposes a goal of 2,185 new affordable units.

DISCUSSION

Following the action taken on November 28, 2001, by the Land Use and Housing Committee of the City Council, staff convened regular joint meetings with representatives of the City's Redevelopment Agency staff (responsible for overall City redevelopment policy and implementation including nine [9] redevelopment project areas), Centre City Development Corporation (responsible for Downtown redevelopment), Southeastern Economic Development Corporation (with redevelopment responsibilities for their area), and the San Diego Housing Commission (with responsibility for affordable housing development Citywide).

(See Attachment 2)

The Working Group joined together to develop an affordable housing strategy for the City of San Diego. Their activities included reviewing the City's history of affordable housing production from 1992 – 2002. On April 17, 2002, the Working Group presented the Land Use and Housing Committee with a report on the historic perspective of affordable housing previously undertaken by members of the Group. Acquisition and rehabilitation (acq/rehab), homeownership assistance, and preservation of existing homes also have been used to increase housing affordability.

Table 1 illustrates the combined historic achievements of the Working Group agencies.

Table 1:				
1992 – 2002	Total New Units Completed	Total Acq/Rehab Units	Homeowner & Owner-Occupied Rehabilitation	Total Units
	1,821 units	3,039 units	5,276 units	10,136 units

The Working Group agreed to use SANDAG's Regional Share statistics, which correspond with the City's Housing Element of the General Plan. Both measure new unit construction. The Working Group also explored opportunities to expedite, coordinate, and standardize the project approval processes by maximizing resources to produce the optimum number of affordable housing units during the 5-year plan.

GAP ANALYSIS

According to SANDAG's 1999 – 2004 projections, there will be a need for 23,397 new affordable housing units in the City. When comparing the number of new units *completed* by agencies in the Working Group since 1999 and adding the units *scheduled to be completed* ("in the pipeline") by the end of 2004, it left a projected gap of 21,848 in new affordable units.

Table 2 illustrates the GAPS, by income level, the Working Group identified.
(Attachment 3)

Table 2:				
1999 - 2004	SANDAG Citywide Projected Affordable Housing Need	TOTAL COMPLETED Units 1999 – YTD	TOTAL PIPELINE Units 1999 – 2004	TOTAL Estimated GAP In New Units 1999 - 2004
Extremely & Very Low-Income (<50%)	7,463 units	250 units	586 units	6,627 units

Low-Income (<80%)	6,797 units	28 units	464 units	6,305 units
Moderate-Income (<120%)	9,137 units	92 units	129 units	8,916 units
TOTALS	23,397 units	370 units	1,179 units	21,848 units

The Working Group recognizes that this proposed approach will not address all the City's needs, but believes many will be addressed through other City programs. Three such programs are the San Diego Housing Commission's:

- 1) Acquisition and Rehabilitation (acq/rehab) where existing housing, both single- and multi-family units, are purchased and rehabilitated in a cost-effective manner to make additional units affordable to San Diego residents;
- 2) First-Time Home Buyer Programs that provide shared-equity and silent-seconds, and
- 3) The Homeowner Rehab Grant/Loan Program for owners to rehabilitate their existing homes.

The Housing Element of the City's General Plan projects a need for 860 acq/rehab conversions of existing housing, and the City's Consolidated Plan outlines homeowner program goals, as shown in Table 3.

Table 3				
1999 – 2004	Acq/Rehab Goals	Number of Acq/Rehab Units YTD	Number of Acq/Rehab Housing Units Scheduled (Pipeline)	Current Status of Acq/Rehab Production
	860 units	419 units	1,051 units	+610 Units
	Homeowner Program Goals	<ul style="list-style-type: none"> ▪ An estimated 1,500 for households making 51 – 80% AMI will be served. The average income for first-time homebuyers is 65% AMI. ▪ A projected 1,100 homeowners are expected to receive assistance to rehabilitate their homes (Ninety percent at the 0 – 50% AMI level). 		

GOALS

The Working Group, realizing that production of 21,848 affordable units was not feasible, established 10% of the need as its initial goal. Table 4 illustrates the proposed 5-

year priorities (next page).

Table 4: 1999 – 2004			
GAPS IN NEW HOUSING INVENTORY	INCOME LEVELS	GOAL (BASED ON 10% OF TOTAL NEED)	RECOMMENDED RANKINGS IN NOFA PROCESS
6,627 units	Very- Low Income (<50% AMI)	1,200 (55%)	1. Small families (1 & 2 bdrm units) 2. Large families (3+ bdrm units) 3. Individuals; Seniors; & Special purpose (SRO, studio, & loft units)
6,305 units	Low-Income (<80% AMI)	655 (30%)	1. Small families 2. Large families 3. Individuals & Seniors
8,916 units	Moderate- Income (<120% AMI)	330 (15%)	1. Home ownership for families 2. Rentals for large families
21,848 Total Units		2,185 Total Units	

NOFA and Selection Process

The Working Group proposes to use a Notice of Funding Availability (NOFA) process to solicit project proposals, which would be reviewed jointly by the agencies as well as the applicable community process. The flow chart is included as Attachment 4 and illustrates the NOFA application, review, community participation and approval processes.

The NOFA would include specific submittal requirements and forms, and selection criteria, including such factors as product type, affordability levels, project readiness, location, funding gaps, and developer team qualifications. It is anticipated that the NOFA would be released Monday, January 6, 2003. Two times a year, presubmittal conferences would be held for potential proposers seeking more information, but proposals could be submitted at any time.

Upon receipt, proposals would be assigned to a project manager representing the geographic area in which the proposed development would be located. For example, a proposal for the Mount Hope area would be assigned to SEDC for project management. The project manager would perform a preliminary review and, if the proposal has merit, he or she would forward it to a new Comprehensive Housing Strategy (CHS) staff review committee comprised of CCDC, SEDC, the Housing Commission, and the City's Redevelopment Division representatives to evaluate project viability. This committee would provide direction to the project manager for underwriting.

This proposed process offers a distinct improvement over current procedures and would significantly increase the number of affordable housing units that could begin construction in redevelopment project areas and surrounding communities within the next

18 - 24 months. Compared with the current process where an affordable housing developer must seek needed funds from several public agencies, each with its own unique application, underwriting and documentation, this is a more efficient process.

In an ongoing effort to maximize housing production, member agencies of the Working Group will continue to bring projects that support the goals of the Comprehensive Affordable Housing Strategy forward for Agency approval prior to issuance of the NOFA. Support for these projects will come from existing fund balances and will not affect the committed leverage amounts.

Development Services Department Expedite Process

The Working Group, in its efforts to produce more affordable housing units, also collaborated with the Development Services Department (DSD). Development Services is proposing an affordable/in-fill housing expedite program that is scheduled for the Mayor and Council's consideration on the same docket as this report.

This component of the City's plan to improve production of affordable housing in the City would: 1) add dedicated affordable housing staff, 2) offer a more aggressive processing timeline by providing mandatory preliminary review for early feedback on proposals as well as shortening the project review cycle, 3) the project applicant shall fund the initial environmental study at the time of preliminary review, and 4) make proposed changes to current regulations such as using a performance rather than the prescriptive-based standard currently found in the land development code including Planned District Ordinances for judging the projects merit for approval. You may refer to the specific City Manager's report on this item for details.

Financing

California Redevelopment Law requires 20% of all tax increment revenue received by the Redevelopment Agency to be set-aside to provide housing for individuals of low and moderate income. Where possible, the Agency leverages its funds by working in partnership with nonprofit housing organizations, private developers, financial institutions, and governmental agencies.

While the low-mod income housing funds (LMIHF), sometimes referred to as “housing set-aside” funds, are the result of a state law requirement and may be used across project area boundaries, three organizations within the Agency (City Redevelopment, CCDC and SEDC) currently oversee the use of LMIHF for each of their respective project areas. It is proposed that certain substantial amounts of LMIHF from all project areas be managed through the Comprehensive Affordable Housing Strategy to fund citywide low- and moderate-income housing.

The issuance of tax allocation bonds secured by 20% housing set-aside funds has been suggested as a possible tool to provide additional funding to increase production of affordable housing units. It is important to note the identification of projects and the estimated requirements need to be established first, prior to the issuance of debt to

maximize the low- and moderate-income sources of the Agency. Use of cash throughout the Agency's project areas in the interim will allow projects in the pipeline and under negotiation to move forward while allowing time for the careful development of a comprehensive financing plan to address if, when, and how debt financing should be employed.

Given current estimates of annual Agency tax increment from several of the Agency's project areas, it is projected that a tax allocation bond issuance could generate on the order of \$55 million in secured debt financing. Over 70% of this funding will be attributable to CCDC's Centre City and Horton Plaza project areas, in the downtown area.

To maximize funding, evaluation of the projects must be made to determine the need for taxable or tax-exempt debt with the latter being less expensive. Interest rates on taxable financing could be 30 – 35% higher than tax-exempt rates, which mean significantly less in net bond proceeds and therefore less money to fund projects. To maximize the tax-exempt funding for projects, a review of terms of the Agency's negotiated transactions must be individually analyzed to determine if a transaction could qualify for tax-exempt funding.

Several Agency projects in progress or in development include residual receipts loans, or other loan structures, when, in fact, little return is ultimately expected. Utilizing the loan structure creates the potential to receive annual payments in the future that may likely require any debt financing for such a project to be done on a taxable basis. Instead, granting, or giving, Agency assistance to projects, may allow tax-exempt financing alternatives to be utilized at lower interest costs. Generally speaking, as long as a public purpose is achieved, such as increasing the supply of affordable housing, tax-exempt tax allocation bond proceeds can be granted to either a public or private party. If Agency assistance takes the form of loans to project developers, or if project financing sources include low-income housing tax credits, the Agency's assistance, if financed, may likely require bonds to be issued on a taxable basis. To maximize the impact of the LMIHF and create as many affordable housing units as possible, options to structure Agency assistance compatible with tax-exempt financing should be explored.

It is anticipated that a prioritized project list, which will include estimated costs and expected timing for Agency financial assistance, would be developed and maintained through the NOFA process. Using this information on an ongoing basis, projections and recommendations regarding the use of available cash and other financing mechanisms would be determined and brought forward to the Agency and City Council for review and approval.

Depending on the response to the NOFA, it is expected that short-term and long-term debt financings could be undertaken on a periodic basis, and as needed, to meet project expenditures. It will be important to ensure that sufficient funding is available to meet project commitments, and that there also be a reasonable expectation that any bond proceeds be expended within a two- to three-year time frame. As the NOFA process will

be continual and project submissions will occur throughout the year, project priorities are likely to change and cash flow needs will be dynamic, requiring careful monitoring.

Conclusion

The Comprehensive Affordable Housing Working Group has benefited from this collaborative experience, both as individual agencies and as a body. The Working Group appreciates the collective support of all those concerned about affordable housing policies and programs, and recommend support of this report.

Respectfully submitted,

Carolyn Smith, President
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Approved: P. Lamont Ewell
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Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment(s):

1. Land Use and Housing Status Report on Citywide Affordable Housing Strategy HCR 02-030 (Attachment 1)
2. NOFA and Process Flow Chart (Attachment 2)
3. San Diego Housing Commission Income/Rent Calculation Table (Attachment 3)